REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU – NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON BIG 5 FALSE BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Big 5 False Bay Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Big 5 False Bay Municipality as at 30 June 2014, and its financial performance

and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

8. As disclosed in note 38 to the financial statements, unauthorised expenditure of R5,57 million was incurred as a result of operating expenditure exceeding the approved budget.

Fruitless and wasteful expenditure

9. As disclosed in note 39 to the financial statements, fruitless and wasteful expenditure of R993 983 was incurred mainly as a result of interest and penalties due to late payments of creditors.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Supplementary explanations of budget variances presented outside the financial statements

12. The supplementary explanations of budget variances contained in Annexure F, as referred to in the statement of comparison of budget and actual amounts, do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual

performance report of the municipality for the year ended 30 June 2014:

- KPA 02: Basic service delivery & infrastructure development

16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the *National Treasury's Framework for managing programme performance information* (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. The material findings in respect of the selected objective is as follows:

Usefulness of information

Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

20. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% of the reported objectives, indicators and targets were not consistent with those in the approved IDP. This was due to the lack of understanding and implementation of the performance management system, MSA and the FMPPI.

Reliability of information

Accuracy and completeness

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

Additional matter

22. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

23. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs x to x of this report.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

25. Expenditure was not incurred in accordance with the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements and annual reports

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

27. The 2012/13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

28. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

29. Reasonable steps were not taken to prevent unauthorised expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

30. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant (MIG), Municipal Systems Improvement Grant (MSIG) and Local Government Financial Management Grant (FMG) allocations, as required by section 12(5) of the DoRA.

Consequence management

31. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Waste management

32. The municipality operated their waste disposal site without a waste management licence or permit in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. Leadership has not exercised effective oversight responsibility over compliance with laws and regulations and internal controls over the preparation of financial statements and the annual performance report.

Financial and performance management

35. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial, performance and compliance reporting. In this regard, senior management did not ensure regular, accurate and complete financial and performance reports were prepared and supported by reliable information. This resulted in material corrections to the financial statements and material uncorrected findings in predetermined objectives.

Auditor-General

Pietermaritzburg

28 November 2014

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence